

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 98-260-W - ORDER NO. 98-935
NOVEMBER 30, 1998

IN RE: Application of Suburban Water System for)	ORDER
Approval of an Establishment of Rates and)	ESTABLISHING
Charges for its Water System in Lexington)	RATES AND GRANTING
County, South Carolina.)	CERTIFICATE

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of Suburban Water System (Suburban or the Company) for establishment of rates and charges for its water system located in Lexington County, South Carolina.

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company submitted affidavits indicating that it had complied with these instructions. No Petitions to Intervene or Protests were received.

On November 4, 1998, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's hearing room at 11:00 AM. The

Honorable Philip T. Bradley, Chairman, presided. Darren E. Stevens, President of the Company, appeared on behalf of the Company. The Commission Staff was represented by F. David Butler, General Counsel.

Mr. Stevens presented testimony on behalf of Suburban. The Commission Staff presented the testimony of Tonya R. Shuler, Accountant/Fiscal Analyst and Charles A. Creech, Utilities Engineer.

Darren E. Stevens testified that Suburban Water System serves 14 customers from 1 well in Lexington County, South Carolina. He desires to charge \$20.00 per month flat rate for his services. Mr. Stevens outlined his monthly expenses.

Tonya R. Shuler, an accountant/fiscal analyst employed as a Commission Staff member testified that, due to lack of adequate records, she was unable to verify all of the Company's revenues, expenses and plant investment. Therefore, the Staff annualized the company's revenue based on the number of customers and the monthly rate of \$15 actually charged by the Company during the year ended December 31, 1997. Staff then applied the rate of \$20 per month to arrive at "As Adjusted" revenue. The \$20 monthly rate has been charged by the Company during 1998. According to the Company's financial statement, the Company shows a net operating loss of (\$2,244) and a negative operating margin of (89.05%). After various accounting and pro forma adjustments were applied by the Staff, the net operating loss becomes (\$947) and the negative operating margin becomes (28.18%).

Charles Creech, Utilities Engineer, testified that Suburban Water System came to the Staff's attention after a customer of the system complained that the rate for service

was being increased from \$15 per month to \$20 per month. Staff determined that no rate for the Company had been approved by the Commission. After informing Mr. Stevens of the need to have his rates approved by the Commission, Mr. Stevens filed the Application in this case. No other complaints have been filed against the Company.

Creech also determined that as a result of the 14 existing customers, the Company would have an income of \$280 per month, or annual revenues of \$3,360.

FINDINGS OF FACT

1. The Company is a sole proprietorship operating in Lexington County, South Carolina. The Company has 14 water customers, and is asking to establish a flat rate of \$20 per month for its services.
2. The Company proposes to collect total annual revenues of \$3,360.
3. The Company is entitled to establishment as a water utility regulated by this Commission.

CONCLUSIONS OF LAW

1. The Company is a water utility providing service to its 14 customers in Lexington County, South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10 et seq. (1976), as amended.
2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate. While the Commission considers the utility's proposed rate based upon occurrences within the test year, the

Commission will consider adjustment for any known and measurable and out-of-test-year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. In light of the fact that the Company and Staff propose the 12-month period ending December 31, 1997 as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending December 31, 1997 is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that each of the Staff adjustments proposed by the Commission Staff are appropriate and are hereby adopted by the Commission. Including the effect of the Company increasing its rates from the unauthorized rate of \$15 to \$20 in January 1998, reducing telephone and electric expenses, and including depreciation expense on plant purchased during 1998 were all adjustments based on sound accounting principles.

4. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating

revenues of the utility. The Commission concludes that use of the operating margin is appropriate in this case.

5. Based on the criteria laid out in various State and Federal cases and utility texts, the Commission determines that the Company should have the opportunity to earn a (28.18%) operating margin. In order to have a reasonable opportunity to earn a (28.18%) operating margin, the Company will need to produce \$3,360 in total annual operating revenues.

OPERATING MARGIN

Operating Revenues	\$3,360
Operating Expenses	<u>4,307</u>
Net Operating Income	\$ (947)
Customer Growth	<u>0</u>
Total Income for Return (Loss)	<u>\$ (947)</u>
Operating Margin	<u>(28.18%)</u>

6. In order to earn the revenue necessary to earn an operating margin of (28.18%), we hold that the flat rate of \$20 per month per customer as proposed by the Company should be adopted. We also grant the Company a Certificate of Public Convenience and Necessity to operate as a water utility in Lexington County, South Carolina.

7. Accordingly, it is ordered that the rate attached as Appendix A is hereby approved for service rendered on or after the date of this Order.

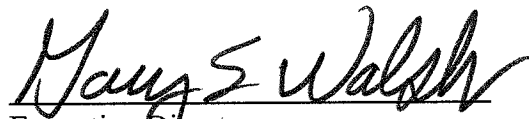
8. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

SUBURBAN WATER SYSTEM

Darren E. Stevens, Manager
1213 Brady Porth Road
Lexington, South Carolina 29072
(803) 356-5702

FILED PURSUANT TO DOCKET NO. 98-260-W - ORDER NO. 98-935
EFFECTIVE DATE: NOVEMBER 30, 1998

SCHEDULE OF RATES AND CHARGES

Water Rate	--	\$ 20.00 per month flat rate
Tap Fee	--	\$250.00 per connection
Service Disconnect and Non-Payment of Bill	--	\$125.00
Disconnection Fee for Summer Homes & Reconnect	--	\$120.00 for 6 months